Minutes of the Regular Meeting of the Mayor and Council of the City of South Tucson, Arizona, held Tuesday, March 2, 2021, at 6:00 p.m. at the City of South Tucson Council Chambers, 1601 South 6th Avenue, South Tucson, Arizona.

Staff Present:	Veronica Moreno, Interim City Manager Bobby Yu, City Attorney Lourdes Aguirre, Finance Director
Council Present:	Bob Teso Herman Lopez Paul Diaz Akanni Oyegbola Anita Romero Robert Romero
Others:	Karla Alvarez, 102 W. 34th St. Lin Rodriguez, 31 W. 34th St. Tom Belshe, AZ League of Cities and Towns Rene Guillen, AZ League of Cities and Towns Mark Reeder, Stifel Michael Townsend, PSPRS

Mayor Teso called the meeting to order at 6:00 p.m., and led the Pledge of Allegiance.

ITEM #03 – MISSION STATEMENT

Vice-Mayor Lopez read the Mission Statement.

ITEM #04 – ROLL CALL

All members of the Council were present, except for Councilwoman Rogers, who was excused.

ITEM #05 – APPROVAL OF MINUTES – REGULAR MEETING, FEBRUARY 16, 2021

Mayor Teso: Do we have any additions or corrections?

(No additions or correction from the Council)

Mayor Teso: Hearing none, do we have a motion?

Acting Mayor Oyegbola: Motion we approve the minutes.

Vice-Mayor Lopez: Second.

Mayor Teso: Mr. Romero.
Councilman Romero: Aye.
Mayor Teso: Ms. Romero.
Councilwoman Romero: Aye.
Mayor Teso: Mr. Diaz.
Councilman Diaz: No.
Mayor Teso: Mr. Oyegbola.
Acting Mayor Oyegbola: Aye.
Mayor Teso: Mr. Lopez.
Vice-Mayor Lopez: Yes.
Mayor Teso: Yes. Motion carries.

ITEM #06 – MAYOR AND COUNCIL MEMBERS: REPORTS OF CURRENT EVENTS; FUTURE AGENDA ITEMS

Mayor Teso: Anyone have any reports?

Vice-Mayor Lopez: Yeah, last week, we distributed some food here for the community from Project PPEP. I don't know whether they're going to continue doing that or not, but hopefully they do and we should know either today or by tomorrow. Thank you.

Mayor Teso: Okay. And we'll pass on report of the vaccination process for the reports by the City Manager. Do we have any future agenda items?

Councilman Diaz: Mr. Mayor, I guess we've, I guess the Councilwoman (inaudible) brought up the subject of the Spanish Trail the last time (inaudible) some progress has been made and I'd kind of like to find out about it as a next agenda, if possible. The legal, well, you know, you can, just an overview of it, you know, if you can give us some details (inaudible) that the public will know that progress has been made. Thank you.

Mayor Teso: Okay. Any other agenda items?

(No other agenda items from the Council)

Mayor Teso: Okay. Hearing none, we move onto Item #07.

ITEM #07 – CITY MANAGER AND DEPARTMENT HEADS REPORTS TO MAYOR AND COUNCIL

Ms. Moreno: Yes, Mayor, members of the Council, thank you and good evening. Just really quick, Mayor, I wanted to point out we have eliminated the Call to Audience from the agenda for obvious reasons. We're in a pandemic, but I noticed that we have some members in the audience this evening and I wasn't sure if you'd like to ask if they'd like to address Mayor and Council now before we move into the agenda.

Mayor Teso: Okay.

Ms. Moreno: And I gave you my report.

Mayor Teso: Alright.

Ms. Moreno: Anybody in the audience that would like to address Mayor and Council?

Mayor Teso: Are we going to do the Study Session?

Ms. Moreno: No, no. I was asking if, because we have eliminated the Call to Audience from our agenda, …

Mayor Teso: Oh, …

Ms. Moreno: … if you'd …

Mayor Teso: … oh, …

Ms. Moreno: … like to …

Mayor Teso: … oh, oh.

Ms. Moreno: … ask any of them in …

Mayor Teso: I see.

Ms. Moreno: … the audience …

Mayor Teso: I'm sorry.

Ms. Moreno: … if they'd like to address Mayor and Council.

Mayor Teso: We haven't done that since a long time.

Ms. Moreno: Right. I just noticed we have some members in the audience here.

Mayor Teso: Do we have members in the audience who would like to speak? Okay. Please come up.

Ms. Alvarez: Hello. My name is Carla Alvarez and I reside at 102 West 34th Street. And I'm here to see if you, or to be able to get ID status of the situations that we're still having at, on 34th Street with the drug trafficking on 107, I believe it is, the house in question. Last time that we were here, I did speak with the Officer Amado.

He did ask for me to send him emails, which I have, but no response whatsoever. So I wanted to see if I could have any more information, or help, or if I could help in any way to resolve this big issue. (Inaudible). Thank you.

Mayor Teso: Thank you.

Ms. Rodriguez: Well, I'm back in town (inaudible). We're still having the problems. And we got some literature from STOPIT. Are they going to have to resolve the problem that we're having because South Tucson can't do anything about it?

Mayor Teso: It's the same issue?

Ms. Rodriguez: Yeah, and about trafficking to the younger kids. And that's what you see going into that house.

Mayor Teso: Yeah.

Ms. Rodriguez: Young kids. And when I, I've been out of town for a couple months with my little sister. And I just found out the neighbors north have called, had their vehicle stolen. Not the first time it's been stolen. Maybe a third time. You guys don't have patrol. Is there a reason for that?

Mayor Teso: I don't know. We'll have to speak with, he's not here today, but the Chief and bring it to his attention again.

Ms. Rodriguez: So, it's my understanding since you all can't take care of the problem, STOP is coming in to resolve it? Or did you not get a letter?

Mayor Teso: A letter from who?

Ms. Rodriguez: Carla, do you remember the name of, it was, it was something and something Associates. They're coming in South Tucson. She said it was out just last week.

Mayor Teso: Last week?

Ms. Rodriguez: Mm hm. Yes, sir.

Mayor Teso: I haven't, I don't believe I received anything. I'll take another look.

Ms. Rodriguez: Anita, did you get any such mail? I'm going to go home, if you permit me, 'cause I did get the letter. And it was a questionnaire, double-spaced, how they could …

(Background conversation)

Ms. Rodriguez: … be, did you get it, Mr.?

Acting Mayor Oyegbola: No, sorry. I believe you're talking about STOPIT. They're a, they're a coalition in South Tucson. They're doing a survey.

Mayor Teso: Oh, okay. Yeah. No, I take it back.

Ms. Rodriguez: Called STOP.

Mayor Teso: Right.

Vice-Mayor Lopez: Yeah, Project PPEP.

Mayor Teso: Yeah. Right. Okay. Yes, we did. I haven't filled it out or anything like that yet.

Ms. Rodriguez: Loyalty to the City of South Tucson. You know, it's a shame how things don't get taken care of. It was taken care of momentarily. Traffic stopped a while. And then they're back with a rage. There's a new couple that bought a house right there on 34th and 7th going west. Those idiots park in front of her house, to the edge of the curb to the front of 107. I tell her, "You don't have to allow 'em to park in your front yard. You know what's going on." "Well, I don't want to cause problems." But that means she's allowing the problem to persist.

Mayor Teso: What, what time of day is it?

Ms. Rodriguez: (Inaudible) …

Mayor Teso: (Inaudible) …

Ms. Rodriguez: … excuse me?

Mayor Teso: … all day?

Ms. Rodriguez: The druggies have no set schedule. You know that, sir. I can go out when I'm letting my puppies out, 3:00, 4:00, 6 o'clock. And (inaudible). It's ridiculous. We've lost three people in that area because of them. And I may be the next one because I've had opportunity to sell, as you well know. It's a seller's market now.

Mayor Teso: Yeah.

Ms. Rodriguez: And this is what's going to happen to your South Tucson. Everybody is going to leave in that one central area on 34th from 7th to 8th. And then north. So they, they walk up and down, exchange drugs and money. I seen it firsthand. And they had an OD at 107 also on heroin. I don't know if there was a report made or you were, been aware of.

Mayor Teso: How about the alleys? Are they going in the back alleys, too, or?

Ms. Rodriguez: Well, certainly. They're marking up her gate and they're dropping, oh, I do remember when I showed you those pictures of the needles, syringes on my back property. I'm sure you could probably go to there, that alleyway, the alleyway north of 7th and 34th. There's probably a slew …

Mayor Teso: Yeah.

Ms. Rodriguez: … of them.

Councilman Romero: I've got a couple of questions. Is that a rental property?

Ms. Rodriguez: What rental?

Councilman Romero: The one on 7th.

Ms. Rodriguez: No. It's a family owned. Those people abuse the auntie that's letting them live there. She pays the taxes. They don't do any upkeep at all.

Councilman Romero: So it's not a rental?

Ms. Rodriguez: That, I'm not sure because I say they could care less about paying the rent. I think the, the owners should be aware, I'm sure they're aware what's going on at that house. And the neighboring property owners was Clara, the, the grandmother that lived there. Her last name was Noriega. You all know the Noriega's in South Tucson. And it's pitiful.

Councilman Romero: I'll get with the City Attorney and Manny Amado later on, see what we can do about that.

Ms. Rodriguez: Isn't that who you tried to get a hold of?

Mayor Teso: Yeah.

Ms. Rodriguez: Good luck, sir. Good luck.

(Background conversation)

Ms. Rodriguez: Lin Rodriguez.

Ms. Moreno: I just, I just …

Ms. Rodriguez: L-I-N …

Ms. Moreno: … (inaudible) …

Ms. Rodriguez: … Rodriguez.

Ms. Moreno: Okay. And your address?

Ms. Rodriguez: 31 West 34th Street.

Ms. Moreno: Okay. Thank you.

Ms. Rodriguez: It's important to me.

Ms. Moreno: And to me, too. That's why (inaudible). Thank you.

Ms. Rodriguez: Okay.

Mayor Teso: Thank you.

Acting Mayor Oyegbola: Thank you, Ms. Rodriguez.

Mayor Teso: Okay. Ms. Moreno.

Ms. Moreno: Yes, Mayor, members of the Council, thank you. So, a really quick report before we get into the Study Session here, I wanted to make sure that we talked about, or I reported on the vaccinations that happened over the …

Mayor Teso: Yes.

Ms. Moreno: … last two weekends here. Initially, we had one at the Housing Authority, which our newly appointed Housing Director Betty Villegas as able to initiate. She made her state contact with those that she still has contact with at Pima County and she was able to have a mobile clinic here at the South Tucson Housing Authority, specifically for the elderly residents. I have yet to have any counts yet as to how many were able to receive the vaccination, but I had some very positive feedback and people (inaudible) as far as those that met the criteria to be able to receive the vaccination. So, after that mobile clinic, we were able to, with Pima County, organize another vaccination clinic here in the City of South Tucson, literally like one week after and …

Mayor Teso: Right.

Ms. Moreno: … it was specifically to City of South Tucson residents. And we had a meeting earlier in the week with Supervisor Heinz, Dr. Heinz. So the count has yet to be determined. There was a count either between 460, he said, or five …

Mayor Teso: Five-eighty.

Vice-Mayor Lopez: Five-eighty.

Ms. Moreno: Five-eighty.

Mayor Teso: Yeah.

Ms. Moreno: But I do know that the vaccination clinic was specifically for City of South Tucson residents. There may have been others from the 85713 zip code that received the vaccination, but it was really nice that they were able to offer the vaccination to City of South Tucson employees.

Mayor Teso: Right.

Ms. Moreno: So, I mean even though employees, those of us that are critical government employees, are on the lower part of, I guess the chain of receiving vaccinations.

Mayor Teso: Right.

Ms. Moreno: We still come to work every day. We're still, you know, around some of the public and are in interaction with people in (inaudible) and things like that. But I definitely wanted to thank those at Pima County and, of course, Mayor and Council who were able, you know, to organize that on our behalf. I know a lot of you have phone trees. Councilman Diaz, Councilman Romero, Councilwoman Romero, Oyegbola, I know you're out there going to restaurants as well as the Mayor and Vice-Mayor Lopez. So, thank you. We really appreciate it. A lot of people in our community, I know that don't have access to the internet are not able to register or even weren't even able to, you know, have transportation …

Mayor Teso: Yeah.

Ms. Moreno: … so that was really nice to be able to have that in South Tucson and I know that there will be more vaccination clinics that will be offered to not only the City of South Tucson, but other areas within the southern part of Pima County. And in addition to that, I just wanted to always reference our upcoming Council meeting. So the next meeting is scheduled for next Tuesday, March the 16th. We will be having training from (inaudible). And that's specifically relating to hostile work environment where we'll be inviting our Department Heads and front line supervisors. And I did mention in my report to you about the vaccination where we talked to Supervisor Dr. Heinz. So there was an invitation to Mayor Teso and Vice-Mayor Lopez, asking the City to have a meeting to introduce their staff as well Dr. Heinz …

Mayor Teso: Right.

Ms. Moreno: … (inaudible) and Mayor Teso, Vice-Mayor Lopez and Acting Mayor Oyegbola. So that was a really nice introduction. We basically talked to Supervisor Dr. Heinz about what Pima County District 2 has done for the City of South Tucson. In my tenure, I kind of gave him a walk-through as to how they've helped the City with the recent settlement, with the jail debt, also regarding the secondary property tax. We are definitely going to follow back up with him on a report kind of just letting him know the needs of the City and how Pima County can help us. And I think we definitely want to make sure that economic development is a priority. So we'll make sure the Mayor and Council receive the report as to what we provide Supervisor Dr. Heinz with. That concludes my report. Thank you.

Mayor Teso: Thank you. I think in that one newspaper article you sent me I think that the Housing Authority they had a total of 76, 77 people that were vaccinated.

Ms. Moreno: Is that what it was?

Mayor Teso: Of which, I think, 41 were from the El Senorial, the older, the older people.

Ms. Moreno: Thank you.

Mayor Teso: Thank you. Okay. Moving onto Item #08.

ITEM #08 – <u>STUDY SESSION: PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM (PSPRS) PENSION DEBT PRESENTATION – STIFEL, NICOLAUS & COMPANY, INC., ARIZONA LEAGUE OF CITIES AND TOWNS & PSPRS</u>

Ms. Moreno: Yes, thank you, Mayor, members of the Council. For several months now, to Finance Director Lourdes' credit and, of course, the presenters and their staff who are here, Mr. Tom Belshe, who is with the League of Cities and Towns, as well as (inaudible) Rene Guillen who is with the League of Cities and Towns, and Mark Reeder, who all of you have met before from Stifel will be providing you with a presentation addressing options that the City may consider regarding the City's unfunded liability referencing the Personnel, PSPRS, Public Safety Personnel Retirement System. I don't know if our Finance Director would like to add to that. We also will be having other members, through Zoom, that will be present as well, which will include Michael Townsend, who is the Director of the Public Safety Retirement System and others who can introduce themselves as we begin the Study Session.

Ms. Aguirre: Thank you, Madam Manager. Mayor and Council, good evening. I think that you have all been able to track along on just the broad picture when it comes to PSPRS and the issues that the City faces. You know, we make it a point to present to you on it every single year. And really, I think that the options that you are going to hear about today are really good options for you all to consider. I think that that's what we've been working towards, especially because, yes, the City of South Tucson does need a little bit of (inaudible) when it comes to those increasing payments, right? We need to be able to release some of that pressure from your budget. So that's what you're going to be looking to today. And Mr. Michael Townsend from PSPRS is also going to be giving you a little bit more of that history. So, without further ado, we'll open it up for Mr. Tom Belshe to give you all an introduction.

Mr. Belshe: Mayor Teso, members of the City Council, it's my pleasure to be here. As was mentioned, my name is Tom Belshe. I'm the Executive Director of the League of Arizona Cities and Towns. This is a very difficult subject that you're undertaking tonight, okay, but just to let you know, all 91 cities and towns have an issue with this. Now, varying degrees, you have an extra, you know, difficult one that you're dealing with here. But all cities and towns are dealing with the problem of unfunded liability with their PSPRS engine system. So, one of the things that we encourage is for, there's been a lot of good work that's been done here.

We've been involved in the meetings, developing this information. You have very experienced bankers who have taken a look at this issue for you that have worked on this with other cities and towns. What you're considering tonight has been done by other cities and towns, most recently the City of Flagstaff and others, other counties as well and I'm sure Mark Reeder from Stifel will talk about that. It's, this is something because it's so difficult, oftentimes councils will, excuse the expression, kick the can down the road, so to speak. And at some point, it comes, it comes to a point where your budgets can't even handle just keeping up with, you know, it's like a credit card. You know, you're paying the minimum payment and you're not making any headway and pretty soon, it gets to a point where it's unmanageable. So, we don't encourage or discourage any particular approach, but we can say that other cities and towns have taken this approach. There's been a lot of work done on it. Now, I will also warn you, okay, these things are difficult to understand sometimes. So, ask questions and really try to understand the, the, if something like this is going to be done, it's going to be you that are going to be leading that charge. So, you have to understand how it works. And I just wanted to let you know, too, that you know, at the League, we encourage our council members, you know, always to, to, not to be passive in what happens at the Council, but you know, to ask questions and, and really try to understand.

Mayor Teso: Right.

Mr. Belshe: Again, I know that Mike Townsend with PSPRS and Mark Reeder, and the League, we're here to provide you, help you, provide you any kind of information that you need. And I would also suggest that some of the, you know, you may want to even contact people that have been through this. I know that other elected officials and staff from other cities and towns that have gone through it would be more than happy to talk to you about how they came to the decision that they did. But that, I'm just introducing the subject tonight and I wanted to let you know that I know that there's been lots of good information. The ideas and the information that's in the presentation, I think, is going to be something that's very useful for you. And with that, I'd be happy to answer any questions.

Councilman Diaz: I have a question. I believe our situation is kind of unique (inaudible) we have volunteer personnel filling in the requirements of a full-time employee.

Mr. Belshe: I don't know your, your specifics. I just know that your level of unfunded, the unfunded liability. I don't know, in particular, about, I just know that you guys have a serious unfunded liability. Now, how it, how it got to, that's why we have Mike Townsend. Mike Townsend is going to talk to you about the history, about how we're, why we're at where we're at.

Councilman Diaz: Okay.

Mr. Belshe: But what I do know is that even just making payments that PSPRS says you need to do, you know, to meet your legal obligations isn't going to solve the problem. And so that's why you have to take some, you know, more extreme steps than that in order to solve the problem.

Councilman Diaz: Thank you.

Mr. Belshe: Just one more thing. Unfortunately, the legislative session is going on right now down in, and you're all well aware of that, know the kind of things that are going on.

Mayor Teso: Right.

Mr. Belshe: We may need to, we have committees that we have to be at tomorrow morning. We may need to leave, you know, before the total program is finished, but we want you to know that we stand behind the things that they're going to talk to you about tonight. This may not be the solution for you. It may be the solution for you. But I guess my message is you have to do something. There has to be an approach. And so, because this has been something that's been done by other communities, we just wanted you to have a look at this and know that we stand behind the work that's been done to this point.

Mayor Teso: Thank you.

Ms. Aguirre: Now next to give us a little bit of history, we have Mr. Michael Townsend.

Mayor Teso: Okay.

Ms. Aguirre: And he'll be sharing his screen and presentation with you.

Mr. Townsend: Okay. Thank you, Mayor and Council. Can everybody hear me okay?

Acting Mayor Oyegbola: Yes.

Vice-Mayor Lopez: Yes.

Mr. Townsend: Okay. Thank you, Mr. Belshe. Just to start with, an introduction, my name is Mike Townsend. I started a little over a year ago with PSPRS. I have a pretty good understanding of the position you're in. I spent the last 25 years working in city and county government as a Finance Director and Deputy (inaudible) Manager. So, I understand the issues and, really, that's why I came to work at PSPRS was to try to inform the right information, get to an understanding about what the options are and how do we work together to look at solutions for local governments across the state. This is the summary of Arizona pensions. I'd like to start at the beginning and provide information so you can have the same understanding of the terms we will use. Basically, how the math works around pensions. And then talk about the history, the things that we've been working on here recently so we get to a level of comfort of where we are and what we're doing. And then also look (inaudible) the future (inaudible) provide some information about how to look at and how to analyze potential options in terms of the unfunded liability. These pensions (inaudible) that are listed in PSPRS, the ones that are in bold, the three in bold, are the ones that we handle at PSPRS. And this includes the Public Safety Personnel System, which includes the law enforcement policy as well. So understanding pensions. I'm going to start with the past first and talk about, really, how did we get, is it, that really is the first question we usually get. The largest impacted, in my opinion, going back in time, was the (inaudible) increase. What happened with that is a way to give cost of living increases and it was used excess investment returns to give cost of living increases. But there were some unintended consequences over time with how this was structured. Half of the investment returns above 9% would actually be taken out of a trust. Well, the problem is is when you have a bad year, 100% of those losses would stay in the trust. But then in a good year, you take half of the (inaudible). So, really hard to achieve the assumed rate of return over time when the debt kind of goes (inaudible). The other thing to remember is those monies that were taken out of trust were set aside and used to provide benefit increases to retirees. So the problem is you're taking half of the excess returns out and at the same time, increasing the liabilities going into the future. So, this had a general impact in terms of creating unfunded liabilities for local governments. The other thing that happened was there were disproportionate impacts across the state. I think the goal was to really do it. The goal was to give the same dollar increase to all retirees no matter what their current pension payments were. The problem was if you had a smaller, more rural communities that where the level of pay of the officers was a little bit lower, their pension benefits would be low. And then you'd give the same dollar increase. That would give a larger percentage increase to those retirees, which, again, was creating additional unfunded liabilities going forward into the future. The other thing around this, this type of program, the way the math worked on the permanent benefit increase was going forward, the basic assumption actuaries made is that every year into the future the investment return (inaudible) assumed rate of return. So, by definition, the actuaries were projecting that there would be no excess investment return in the future and therefore no permanent benefit increases into the future. But what actually happened was there was so much money set aside in a separate pot that there were 28 consecutive years of increases provided to retirees. And then also on the investment impacts, just because of the way the excess returns were working out over time, there was a change to the asset allocation on the investments (inaudible) volatility which ultimately resulted in reduced returns on the investments, which just compounded the problem. So, what happened to the PBI? The legislature put on the ballot for the voters to consider Prop 124, 125, would eliminated the PBI, put in a place a (inaudible) that has a 2% gap that provides more consistency and certainty going forward. So, that the actuaries could be accurate about how they're estimating this and we know what to expect into the future. We have, we changed this to some of the actuarial assumptions over the next several years with more trustees. We'll be putting these into place to, again, make it more certain and more consistent going forward about how we pay (inaudible) liabilities. This is a very pro-active approach, the Board of Trustees. And then the investment allocations, we have new staff and new committee members from the Board and we're making those changes to the asset allocation and how managing the investment into the future. Did I say I started a little bit over a year ago? When I arrived, there were some serious concerns with the audits. Issues of contribution processing, the general ledger system, the interim controls. So, we implemented a new general ledger system to make sure that we're accounting for things correctly, including appropriate processes in place. We hired new auditors, Clifton Larson Allen is a national firm that specializes in public pension auditing. We hired new leadership positions so almost entirely a new leadership team so it is new management. We brought in a Deputy Administrator who was the State Comptroller for many, many years; a new Chief Financial Officer Control Internal Auditor, all with substantial state experience. So, we've really brought in some professional experienced staff. The actuaries put together models for each system so this is a tool that finance people in each community can use specific to their plan to look at different scenarios, look at options and start to really do research on their own, understand how the pensions work and what, what options may be available to them, updates on the IT security upgrades, computer systems. (Inaudible) I talked about the investment opportunities and asset allocation. We've made significant changes there, positioning the portfolio for better returns over the long-term. The board adopted the actuarial changes to eliminate (inaudible) amortization. Mr. Belshe made reference to a credit card. If you're just making those minimum payments and really not paying it down, so this is something that will give a scenario over time, but that's going to be phased in over the next few years. And again, that consistency and certainty the pay goes down. We also re-engaged the advisory committee to provide ongoing stakeholder engagement so that includes employer representatives, including Mr. Belshe. It includes member, labor members on the committee. And so, we're working on being more transparent, providing communication and education so there's more of an understanding of what's going on, how we're managing things, and what we're doing going forward into the future. So, now I'd like to look at some of the terms to make sure we understand. PSPRS was referred to as a defined benefit. There will be an actual benefit paid out for our members. It's, when we look in statute, and so that formula will be implemented. It cannot be changed and so it will be paid out. The challenge is we're trying to estimate what those benefits are going to be. We don't know how long an employee is going to work. We don't know what the pay is going to be at the end of their career. We don't know how long they're going to draw that benefit in retirement or if they have a surviving spouse. And so, that's all based on actuarial assumptions. (Inaudible) updated, but really, we're trying to estimate well into the future many debts. So, what is an unfunded liability? That's the term that gets thrown around, but I think it's really important, as you consider your options, to understand what the term means. When we look at, we first have to make sure the assets. And we base that on the value of the assets today. So, when we get to the end of a year, we look at what the market value (inaudible). The liabilities, again, we're looking into the future. So, for every one of your employees, the actuaries are estimating they've earned a certain percentage of that future benefit payment. And the actuaries project out what percentage they've earned and when is that member going to earn that benefit for their lifetime? So they're going many decades into the future. They look at all of the (inaudible) of benefit payments in the future and then those are discounted back to a present value. So, discounting (inaudible) assume rate of return but it's in present value (inaudible). And that's a key term that we're going to go over again a little bit later. So the difference between today's values of assets and the present value, the liability, is either amount that's overfunded or the unfunded liability. The other term that's used a lot is the funded percentage. It uses the same two numbers of plan assets today and then the present value liabilities in a ratio. And so that identifies the assets available to fund the liabilities in today's job. So, the goal is to get to our percent funded. So we have the assets needed for the present to match the present value of the liabilities. But even if we get you 100% funded, those are estimates in the future. And your officers are going to continue earning additional benefits each year they work into the future. And so as we move forward, those numbers are going to change. Just getting to 100% funded does not mean we're done. We need to consider what investment risk and actuarial risk is there to go forward. The pension funding equation gives you a good overview of, of really how a pension works. The right side, or the uses of funds, the benefit payments to the members and the expenses are the cost of running the agency. The left side are the sources of money, where the money comes from. Contributions paid by the employee and the employer, and then the investment returns on the assets. And really, that's it. And the point is there is no other pot of money. There's no other magical source to be used. It comes from one of two places and that's really the only option we have is, is how we consider both. So, every employer has their own liability. So, in terms of PSPRS, there's 264 different plans. And these benefits are protected by the pension clause and by legal precedent. So, the pension reforms created to, to, so all new hires are going into Tier 3. But the pension reforms did not reduce the Tier 1 and 2 unfunded pension liability. It is considered a debt. And so, really, the impact we can have is on the contribution. So, every additional dollar contributed today can earn investment returns over the long-term, and every additional dollar not paid loses out on that opportunity. So, this is looking at where the cash comes from on an annual basis. This is system-wide and you can see how this compares to the City of South Tucson. And you can see 45% of the cash coming into the fund comes from investment returns, which 55% comes from the contributions made by the employee and employer. So, I want to look at the actual numbers. These are numbers from the actuary valuations for South Tucson. For Police, the, I just used the Police. I didn't do Fire. The Fire plan would use the same map. It works the same way. So, I'm going to give you kind of a picture how to look at this. So, the blue one here are the assets in the Police plan for South Tucson. The orange represents the unfunded liabilities. The thing to remember is over on the left, the total present value of all those liabilities, all those future stream of payments are both of those added together. And so, the present value is, this entire graph, and this blue represents the assets and this, this is the unfunded portion. So, kind of give you a picture of how this is structured. So, as we go forward, if you look at where we are this year, those investment returns, South Tucson has an opportunity to earn investor return on the assets. But with only $582,000 in assets, there's a missing opportunity. If the plan were 100% funded, you would be earning investor returns on (inaudible). And the other thing to remember is, and this goes back to that present value term, regardless of the funding status, the total liabilities are going to be discounted one less year because remember it's a present value number. So, each year, in essence, those liabilities are going to increase 7.3%. And that's really where they key Council, as Mr. Reeder comes up next to talk what potential options you have. So, in terms of South Tucson, the left side are the assets. So we look, the investments and the contributions are, are where the cash comes from each year. The investments and contributions added together here is $666,000 which sounds good. That's a lot of money that's going into the plan. But on the liability side, from one year to the next, that present value calculation you can see from 2020 to 2021, it's going to increase $786,000 just through the calculation. And so, the $666,000 in cash coming into the plan is not keeping up with the growth in the liabilities. And that's a key point you've got to understand. There are other solutions that need to come into play if we're really going to solve this. So, again, looking for that one year to the next, 2020, I have the same numbers here. You can see the blue are the assets. So when we get to the next year, you start with the blues. The same assets. We have the investment returns in contributions in the orange and the grey being added in here. So, the increase in the assets, but remember, the total liabilities also grew. And so, ten point, almost two million, to 10.3 million is an increase in the unfunded liability. So, the cash coming in is not really keeping up with the growth in the liabilities. So, here's the, the pie chart again, the cash that comes in on an annual basis. And here's what the actuaries are projecting for fiscal year '21 is that 6% of the cash coming in is coming from investment return. And you can see the rest of this is all coming from contributions; the employee, the employer, and then the unfunded portion of the contributions is within the grey piece. And then (inaudible) opportunity in terms of the investments. If South Tucson Police were 100% funded, you can see 89% of the cash coming in will be coming from investment returns, which would then keep up with the growth in the liabilities. So, again, back to that pension funding equation. The left side is where the money comes from. We're doing everything we can around investment returns to increase that, make it as big as we can. But we can only change that percentage a little bit. We can't move it a lot. And the key takeaway is investment returns will not solve larger unfunded liability. It really needs to come from additional contributions to leverage those investment opportunities. And by looking at the actuaries put together in number four, and over a 17-year cycle, one million dollar additional contribution put in at the beginning of that 17-year cycle saves taxpayers 1.8 million in contributions. So, you can see how you can start to leverage close to two times the money over a long-term cycle. And then also at the end of that 17-years, that original one million would still be in the fund and still be in a investment returns. Again, if South Tucson does find a solution, a way to get additional contributions into the fund, it's, we're also going to need their continued diligence because remember, these are all estimates into the future and when you manage the investment risk and the actuarials. So with that, I'll stop here and see if there's any questions from Mayor and Council.

Mayor Teso: No.

Ms. Aguirre: Thank you so much, Michael. I don't think there are any questions for you at this time. We certainly appreciate you taking the time to present this information to us.

Vice-Mayor Lopez: Thank you.

Mayor Teso: The only question I would have is, is this presentation being recorded?

Ms. Aguirre: It is.

Mayor Teso: Okay. Thank you.

Ms. Aguirre: You'll be able to reference it. Okay. Thank you. So now we'll go onto Mr. Mark Reeder who will be presenting some options to you.

Councilman Romero: Thank you, sir.

Mr. Reeder: Good evening, everyone.

Mayor Teso: Good evening. How are you today?

Mr. Reeder: Lourdes has the presentation. I'm going to draw my map if that's okay with you, Mr. Mayor, members of the Council. Good evening. Thank you for having me this evening. I want to compliment your staff. And I wanted to compliment the City Council on your leadership to bring us in the room. We're here to help you. I think, as you know, we all care about the City of South Tucson. And I will tell you that we're incredibly blessed to have Mr. Belshe with us this evening, from the League, to come down.

Councilman Diaz: Excuse me.

Mr. Reeder: I'm sorry.

Councilman Diaz: Can you get the mike (inaudible)?

Ms. Aguirre: Do you need it up higher? Do you want me to scoot this one up further?

Mr. Reeder: Is that better? Testing. Is that better?

Councilman Diaz: Yeah.

Mr. Reeder: Okay. Thank you. I apologize. I didn't mean to be muffled there. And we all can't wait till COVID is over, right?

Mayor Teso: Yeah.

Mr. Reeder: It's been wearing on all of us. I just wanted to say, Mr. Mayor, members of the Council, I wanted to, you know, thank you for your leadership and staff's been great. And you have a big issue here, as you know. And we're here to help. It's so great to have the League of Arizona Cities in the room with us and it's so great to have Mr. Townsend in the room with us. Just real quick, this, the City of Flagstaff is one of our, one of my clients. And they had been wrestling with PSPRS, like you have and our other cities, as Tom mentioned, for a significant number of years. And it was very frustrating, I think, for them, especially during the budget season. I'm sure Lourdes and all of you can appreciate that, so back in March or February, this is all pre-COVID, the City of Flagstaff had an unfunded liability of $131,000,000, just to kind of put it into perspective for you. And they said, "Mark, what do you know about potential ways in which maybe we can refinance that out? Is there a way for us to kind of help us fix the problem?" And I brought in a couple of my colleagues out of our Chicago office that had been doing this around the country for, for many, many years. And so they've been in the room with us and they've been on our calls and Veronica and Lourdes have met them. And they work all around the country and they said here in Arizona we've never seen, you know, the support that we have here, having a pension, actually having the Chief Executive Officer of a pension coming into our, into the room with us and being transparent with us, sharing the story of what happened in the past and then to have Tom here and Rene here from the League is just very, very appreciated and shows you and our other cities around the state, you know, that there's a lot of support for you to deal with this problem. Okay. So let me go through some of this with you here real quick. I'm going to have Lourdes do this for me. Tom mentioned that, and Mike mentioned this, and again, City of South Tucson is not alone. This is actually the Tier 1, Tier 2, PSPRS unfunded liability of all of our local governments and state governments around the state. Okay? And it's about 12 billion with a "B". And you can see our cities and towns. Thanks for doing that, Lourdes. Right there is about 7.4 billion, with a "B". You can see the state is about 2.6 billion. They have a huge DPS unfunded liability. And then you can see our county is about a billion three and our fire districts, and a little bit with our universities and community colleges. Okay? So, you're not alone. This is, as Mike mentioned to you, which I thought was great history, how did we get here and it had a lot to do with that permanent benefit increase. Remember that Mike referred to called a PBI.

Mayor Teso: Right.

Mr. Reeder: And this, this all happened, I guess, back in the '70's. This happened years ago. And legislation was approved that allowed for more benefits to the retirees, assuming they can get higher returns, right? And so, they, the fund, I think, was somewhat incentivized to go out and get higher returns. Okay. And some of the investments went south. So that's kind of why we're here and we're all dealing with this constitutionally protected, what they call Tier 1, Tier 2, the more expensive pension liability for our Police and Fire. As Mike mentioned, it's been replaced by Tier 3 now. Not that you guys are probably hiring a lot of new officers. I could be wrong on that, Lourdes, but going forward, all of our new officers, for the most part, coming on would be these Tier 3 employees, which is a more reasonable pension system for cities and towns to manage. Okay? Okay. Next page. Mr. Mayor, members of the Council, I just wanted to share, all of you were in the room. I don't think we have any new Council members here, do we?

Ms. Aguirre: No.

Mr. Reeder: So we all work together. If you remember, back in '19, we did the refinancing and saved the City a lot of money. We did the best we could to lower that interest rate. And if you look on the right hand side, those are your annual debt payments. Okay. You see the 400 there? Okay. That was really, that's the savings that we gave you because we lowered your interest rate, saving you a couple of hundred thousand per year for several years. That's to help your budget, right? We wish it was two million, but it's two hundred thousand. And then you can see that your payments go up to $600,000 starting in 2025. And you all remember that from our previous communications. But about 6.1 million down below there, you got $225,000 being paid here very quickly, okay? So, I just wanted to share that, that's on the books till '34, if, unless it's paid off early, okay? So that's one debt. I would say that's about 10% of your budget. I'm going to through some numbers around here. Lourdes, bear …

Ms. Aguirre: Yeah.

Mr. Reeder: … with me. I think your General Fund, your pledged revenues are about five million, a little more than that. So you have $600,000, so I'm kind of rounding numbers and we can fine tune these later, but about 10% of your budget goes to pay this debt. And remember, this was the refinancing of the refinancing of the refinancing of the refinancing, and the can was kicked down the road, right? So it's frustrating because it's a large part of your budget and you're not really getting any benefit for it, are you?

Mayor Teso: No.

Mr. Reeder: Equipment's (inaudible) and some building (inaudible) so just wanted to give this quick reminder. Okay. Next page. How am I doing so far? Everybody all good, keep going?

Mayor Teso: You're doing great.

Mr. Reeder: Mr. Diaz, you have any questions? Mr. Diaz always has some really good questions on, on our finance here. Okay. So, just to give you a quick reminder. Back when we did the transaction to refinance your bonds, you can see that we pledged certain revenues. And if you go to the right hand side there, you've got about three million a year and you're a local, sacred local sales tax revenues. Okay. Not uncommon in Arizona because as Tom will tell you, we live, breathe and die by our local sales taxes in Arizona. It's the way the whole system was set up way, way back when. Licenses and so (inaudible) 3.2 million. I think Lourdes will tell you, going to 2021, even with COVID, our local economies are fairing pretty well, you know, because of the various things that have gone on. So that's good. And then you can see the other revenue. State shared sales tax, $600,000. I'm rounding. State shared income taxes, this year, about seven-fifty. Those are up. And then vehicle license tax, so if we, if we do a financing to refinance out your pension, we're going to use a similar structure. So, I'm just giving you the quick reminders on that. Okay. Next page. The right hand corner is what we're estimating at the moment your Tier 1, Tier 2 unfunded liability about 14 and a half million. Big number. By far your largest liability. Now if you go on, let's break this down a little bit. Your Police, go to Police up there, Lourdes, if you would, it's 10.2 million in that first column, Lourdes, I'm sorry. There you go. So Police is the least funded account. Your 10.2 million unfunded, so you're only 5.4% funded and your paying PSPRS 7.3% on the unfunded balance every year. That's where this negative amortization comes into play, right, because the contributions are not sufficient to keep up. That is one of the lowest percentage, funding percentages in the state. Okay? And I think you know that. We're not trying to bring that out, but that's one of the lower ones. And then the Fire is better funded at about 3.2 million. And I believe you have some form of a volunteer Fire, too, Lourdes and Veronica, which I think has helped you in this regard.

Ms. Moreno: The Reserves, yeah.

Mr. Reeder: The Reserves. So, good job on that. Okay. Now going up to the top, it's also my understanding that there's also some reconciliations going on with respect to some additional that I think you're aware of, Mr. Mayor, members of the Council, some additional unfunded liabilities that are being discussed and reconciled with PSPRS right now, so …

Mayor Teso: Right.

Mr. Reeder: … we're going to report once all that gets reconciled with staff and we'll report back to you. Alright. The red line is your famous, you have entered into an agreement with PSPRS to pay them back over an extended period of time to pay that unfunded liability back. I'm going to walk you through that in a minute. Essentially, it's going to double, it's going to more than double and I'll walk you through that in a moment. Okay? Next page. So, again, on the left hand side there, that's a bar chart. And it shows you that the average funding percentage in the state, you see that third one there, Lourdes? The average funding percentage in the state is about 46%. This is back to where you're not alone. And we want to share that with you. But if you look at your Fire and you look at your Police, you're at the bottom quartile of your peers around the country. Okay? So it needs attention and that's why we're here, trying to come up with all the tools in the toolbox for the City. Over on the right hand side there, the Police there, you see that AAL, that's your present value liability that Mike was talking about for Police. And that's really what we owe right now on a present value basis. And I'll round 10.8 million and you have about $600,000 in the account. Okay? That's the 5.4% funding ratio and you're paying 7.3% on 10.1 million. It's actually even higher than that right now. So, and then on Fire, as you can see, we've got a million two in the investment account and on a present value basis, based on the most recent actuarial reports that Mike talked about, we owe 4.3 million. Okay? So that's some information I know that you're already aware of, but I wanted to kind of give you that backdrop here and then we'll get into kind of these, some potential solutions to look at. Go to the next page. Thanks, Lourdes. Okay. So, see the red box there, Mr. Mayor, members of the Council? Those are your amortization payments from PSPRS. So this is the "Do Nothing" scenario. And this gets updated every year, as you know, the update, all the information that Mike talked about in terms of investment returns, how that's going, and then how these actuarial changes are changing every year. So, it looks like right now, going into next budget year, you're going to have about $700,000 in payments. See that (inaudible) bear with me, that you owe. And this is combined, yeah, this is combined, Police and Fire. And then as you can see, see how the payments go up each year? And we're estimating that they're almost going to triple, at the moment, they're going to go to about a million six thirty-nine if you look at that box down there, Lourdes. See that?

Mayor Teso: Yeah.

Mr. Reeder: So that's almost three times where we're at now. And they'll probably go higher than that. So that's a pretty steep mountain to climb, is kind of the term we've been using. Is there any way we can help chop that mountain down because that doesn't really provide for budget stability for you, does it? And a lot of demands on your General Fund, excessive demands, all cities do. They've got so, payroll, and they have infrastructure projects, insurance and all the things it takes to run a city. So, our General Funds have a lot of pressure on 'em. And you can see where you guys are headed going into the future. So, if you add all those numbers up, you see about 37 million, probably round that to about 40 million that you would pay over the next 28, 28 years. So, a lot of money. And then you can see the percentage numbers up there but I'll kind of just, I want to keep that as a framework there in terms of where we're at now. Next page. Thank you. So this is just a slide where Mike was talking about this. Tom mentioned this as well, so what are our cities doing? And, you know, it's been tough on 'em. And frankly, a lot of cities have not done a whole lot. And they adopt their policies and procedures every year as part of your budget, as you all know. And they try to throw as much money as they can, but it ends up being not enough. So the can kind of gets kicked around the, is kicked down the road, as they say. And we're not seeing very many cities, we have 90 cities. Again, I'm rounding. Tom is going to correct me here. We have 90, Tom, or?

Mr. Belshe: Ninety-one.

Mr. Reeder. Ninety-one cities out there. And they're not real receptive towards tax increases out there. I think you're aware of the City of Prescott, maybe. They, I think they were about 30% funded. And they actually, their voters approved a 1% sales tax. They're a charter city. They have to go out and get voter approval. And they're taking the proceeds of that dedicated sales tax revenue stream on a pay as you go basis and that's how they're dealing with it. Vibrant economy, as you know, can raise millions of dollars a year from, that's how they solved that problem.

Councilman Diaz: (Inaudible) for their sales tax.

Mr. Reeder: On a 1%? You know, I don't, I, I'll get that to you …

Councilman Diaz: (Inaudible).

Mr. Reeder: … next time.

Councilman Diaz: The 10%, 12%.

Mr. Reeder: Oh, their total? I think they're about, what, three, probably 3.5 up there, Tom?

Mr. Belshe: (Inaudible) …

Mr. Reeder: City of …

Mr. Belshe: … (inaudible).

Mr. Reeder: … Prescott. Yeah, City of Prescott.

Mr. Belshe: Prescott's probably around two and a half.

Mr. Reeder: About two and a half.

Councilman Diaz: Two and a half?

Mr. Belshe: But you're talking about a combined county, state, …

Mr. Reeder: Oh, yeah.

Mr. Belshe: … (inaudible). Is that what you're asking, Council member?

Councilman Diaz: No, the, well, the sales tax was increased by 1%. The total of that sales tax is what now?

Mr. Belshe: Still 1%. They're still levying the 1%.

Councilman Diaz: Oh.

Mr. Belshe: Are you saying …

Councilman Diaz: That, that's the whole sales tax that they're paying for everything?

Mr. Reeder: No ,no, no. Their, their total in the city is about two and a half total in the city. Local, and then on a statewide basis, about 10%. 'Cause the state is 5.6, right? And then I think they've got a jail district up there, Tom, is my recollection.

Mr. Belshe: Yeah.

Councilman Diaz: We're at 11%.

Mr. Reeder: We've talked to staff about this. We're, we're tapped out on our sales tax, right?

Mayor Teso: Yeah.

Mr. Reeder: It's not something, you know, as a policy matter that you could probably do. We need our retailers happy.

Mayor Teso: Yeah.

Mr. Reeder: Because that 3.5 million dollars in local sales tax revenues, so we, yeah, we understand.

Mayor Teso: And we can't bring any businesses in either.

Mr. Reeder: Yeah. So, the second one is to, you know, we just talked about this is amend your policy if you decide not to do this refinancing, which is number three, right? Is amend a policy, do you have enough budget capacity to throw at the problem or is there any way the City can increase taxes, very, very difficult. We know you don't want to go there on sales tax. And we're going to show you a property tax analysis just because we want to, we want to walk you through that. Or number three, what we're going to share with you what, as Tom said, some of the other cities are doing is we're refinancing out the 7.3% accrual rate that you're paying to PSPRS. Right? Now, the only good thing really of COVID is probably that we're at all time historical low interest rates. Everybody knows that. Our mortgage rates are in the two's. It's been a great time for people to refinance their mortgages. And so, COVID hit and Flagstaff recognized that we're in a very low interest rate environment and started kind of a flurry, if you will, of interest across the state in determining whether or not a particular city could go ahead and refinance the 7.3 with something significant less than that, which we've been able to accomplish. Okay? So that's really number three. Okay. Next page. This is the interest rate chart of the 10-year U.S. Treasury. We, you all know, we hit an all time low, you can see there, in March or April. And you can see the last couple of weeks they've started to inch up on us a little bit, as you, if you've been reading about and hearing about partially because there's some inflation potentially creeping into the economy. The stimulus package is inflationary. You know, we're still waiting to hear what that's going to be coming out of Congress. But all that kind of chatter, that information …

Mayor Teso: Right.

Mr. Reeder: … is potentially, you know, inflationary and I actually heard today that Uber came out today and it was last week was their largest increase in number of users. So, you know, things are starting to, as you know, unfreeze. And so that's what's causing the, not the end of the world, but okay, next page. Okay. Sorry about all this. This is kind of what I just went over here with you all, so I'm going to move on. I'll come back to this, Lourdes, because I want to move on here and show, show the Council here what I hope is helpful. Okay. We have, really, two scenarios for you. We have three scenarios; do nothing, and you saw the numbers. They're going to triple unless you throw more money at it. This is a scenario for the City of South Tucson. It's all projected. It's all kind of estimated right now and we're going to have to fine tune everything. So here's the question: could the City, you know, we have July 1 up there. You see that, Lourdes? You know, between now and the next few months, could the City borrow, at about 4% money, you see the four thirteen there? Okay. Bear with me on that. Now these are taxable obligations. Could we borrow 4% and issue 14.8 million dollars. You see that number?

Mayor Teso: Right.

Mr. Reeder: And we'll deposit 14.4 million and we're going to wire that to PSPRS. Right? At which time you would be not 5% funded, you would be 100% funded. Okay? You're swapping one liability for another. Okay? We're going to take 7.3 money and we're going to swap it in our hypothetical example right now, 4%. What does that look like? If you look at the red line, that's your current payments to PSPRS that we don't like. Nobody's in favor of that. And the blue line would potentially be your new debt service, okay? And I'm going to take you to the next page. I think this is a little easier, but in column A there, the second column, there's the red line. And if we were able to sell bonds for your City and try to get 4% money, you can see that we leveled out your payments at about $920,000 a year. Do you see what we did there? So you don't have those spikes. You don't have that mountain to climb. And then you can see the savings, Lourdes, right there. That would be your annual savings. You see it? Okay. You otherwise would have had to pay to PSPRS. So, if you go down to the green there under this hypothetical scenario, that would save the City 12 million dollars. And on a present value basis, okay, today's dollars, 6 million dollars. Okay? Now, so I like column three. Column B there. I like column B. And, but what some of our cities are doing on these pension refinancings is to the extent that they have some budget capacity, they want to pay this thing off a little bit early. So, if the City had some additional budget capacity, and I know Lourdes is working on our new forecast, and if it was possible, if you could increase those payments, let's just hypothetically assume you could throw another $100,000 a year at it, then you're going to shorten this thing and get it off the books. Wouldn't that be nice? Okay. So that's scenario number one. Okay? Next page. Okay. Now here, because we've had to get very, you know, very creative in, in helping you with coming up with a few solutions, we threw out, this is just an idea, and you may say, "This ain't gonna work," and let's just go back to scenario number one. This is scenario number two. Okay. This is a combination of revenue bonds issued by the City and about 1.8 million dollars of a voter-approved property tax bond. Okay? Now the City's never pursued a property tax bond. It's fairly common across the street, more so for, I would say, larger cities, but with voter approval at 51%, with a property tax increase, the City could potentially borrow another 1.8 million and take the 1.8 million and wire that to PSPRS, right? And then issue a smaller amount of revenue bonds, okay. 'Cause we're just going to break them up. That's what this scenario here shows. So, you can see the pension (inaudible) see that the fourteen four ninety there, Lourdes, the GO on the left hand side is GO property tax. And the pro is your revenue bond, so it's still the same amount, but we're issuing about two million less in revenue bonds. Okay? And that'll, that'll take pressure off and we're just fabricating kind of a General Fund versus a property tax shift here a little bit. Okay? Bear with me. Alright. Next page. Okay. Now this scenario here, because is you can get it passed, and you have to go to the community and the community would have to be all in on this as a way to help the City stabilize its budget into the future, and it's a legacy fix with your citizens. It's a tad bit painful, but not, I'm going to show you a property tax amount here. It's not too bad. But it's a situation where you'd have to bring your community in the room and they would have to understand, you know, like what we all understand and they would have to go embrace it and say, "We gotta do this." There is a certain amount of benefit associated with it. And you can see in the third column, the red column there, that's the property tax bonds. And that would be levied on the property taxes, right, not the General Fund because we need relief in the General Fund. And then you can see with that relief, we're able to pay your bonds off early and get your debt service payments at about $940,000. So the City (inaudible) increases to about 16.2 or on a present value basis of about (inaudible). So, Mr. Mayor, members of the Council, that's a lot of numbers. And I know that's, you know, it's complicated math but I think when we ran these numbers, the way I viewed it is your General Fund relief there in that fourth column where it says "Debt Service", you know, gives you an opportunity, if you could pass the property tax bond, to kind of, you know, lower that and get this thing paid off eventually, many, many years early. Okay? Yes, sir.

Councilman Romero: What kind of money are we talking on the property increase on the property tax?

Mr. Reeder: Let's go ahead, let's go there where we calculate that for you. Okay. Alright. So, I think we shared this with you in the past. I remember we had a Saturday Study Session and some of you were in the room. Okay. So, under the Arizona Constitution, when the state was formed, they gave our cities and towns the authority to issue these property tax bonds. And our schools issue them all the time. That's how our schools are built.

Mayor Teso: Right.

Mr. Reeder: And it's limited to 20% of your net full cash value for water, sewer, lights, parks, open space, transportation and public safety purposes. Okay? That's 20% and we're estimating you have about six million dollars in essentially budget capacity or bonding capacity. And that would really be more for public infrastructure improvements. We're not talking pensions. But shift over to the 6% category. Mike Capizo, your bond attorney, has suggested, indicated to us that the City could pursue a 6% property tax bond, which you have about 1.8 median, simple math there. And if that was approved by the voters, you could issue the 1.8 million dollars, levy the property tax. And I'm going to show you in a moment, and take the 1.8 million and wire that to PSPRS to reduce that liability. So your revenue bond, 1.7, 1.8 million less, right, that's a good thing because our General Fund takes back our revenue bond. Okay. So, next page. And we can, we can, you know, recalculate this any way you want. But here's what we did just for purposes of tonight's meeting. The second column is your property tax base. And I'm sure Lourdes will share this with you, if she hasn't already, you're up 7% this year so your property grew. Not uncommon around the state. We're having, it's a seller's market, as the lady said, and we would issue the 1.8 million of bonds and you can see in column six, that's that two hundred and some odd thousand dollars per year in an annual levy. You see column six there? That's what we would have to pay back. Now it wouldn't be for a while. If we do this, we have to have a November 21 election. Coming up. Council would call it in May or June. Okay? It would be a 2022-23 levy, okay? So they would, they would get their property tax increase in '23 and you can see the tax rate in column seven. If you go all the way down to the bottom, on a 10-year level (inaudible) the most part, about 90 cents per $100 of assessed valuation on your property tax statement. Okay? So let's go to the next page. Keep the 90 cents, I'm rounding, you plug the 90 cents into the average value of a residential home within the City of South Tucson, this came, this is off the County records, it's not market value. It's the County full cash value. At $64,000, $63,840, right, residential homes are assessed at 10%, so that's $6,384. We divide that by 100 'cause tax rates are per 100. And we plug in 90 cents and it would cost the average citizens in your City $4.79 a month. Now no property tax increase is good.

Mayor Teso: Yeah.

Mr. Reeder: But again, if it helps contribute and the community is receptive and understanding, and it wasn't anybody's fault, and we're trying to work our way out of this very precarious situation that's only going to get worse, would you support us? And if so, we're estimating that to be the case. The commercial properties assessed at a higher rate, as you all know, so we're calculating the average business, commercial property business would be about $24.00 a month. And you could see vacant property and any agricultural designation would be $2.25. So let me stop there. Yes, sir?

Councilman Romero: That $4.79, is that would be by month or by year?

Mr. Reeder: That is per month.

Councilman Romero: Per month.

Mr. Reeder: That's per month. It's $57.00 a year divided by 12 there. That's how we did that.

Councilman Romero: Okay. Thank you.

Mr. Reeder: So, that's, we haven't done this yet, Mr. Mayor. You're the first city that, that I represent where we have incorporated this feature.

Mayor Teso: Right.

Mr. Reeder: Because, you know, your options are more limited and we're just trying to look at all the options. Okay. Next page. Let's see here. Okay. Now let's talk a little bit about risks. So, in the pension bond world, there's two risks. There's investment return risk and there's actuarial risk, right, the actuarial changes you're going to have either way. And that's what Mike was talking about. How long do people live, right? How much money is coming into the system each year? What other issues are out there on that that will impact those numbers. And the other one is investment risk. So, generally speaking, if PSPRS can give you return equal to or higher than you're borrowing rate, then you're better off. Right? Okay. So, let's say we pull this off, depending upon how we do it, we got you, I'm just going to use 4% for now. And we wire that money to PSPRS and they get a return greater than you're better off. Okay? If PSPRS does not get a return greater than that, then we are worse off and we should not do a pension bond, obviously. Does that make sense? Kind of relatively simple math. So we, our clients that have done these refinancings, we've done a billion, Tucson did theirs last week at $675,000,000. I don't know if you read about it in the paper or not. We've done about a billion. We've done seven transactions so far at about a billion. Similar conversations in our board rooms. And the clients, because of Mike's leadership, and Mike's running of the PSPRS system, our clients are comfortable, at this point, and they're more confident that PSPRS can get 'em a, a return higher than the bar where you're generally in the 7% range. Right now, their actuary, our calculations assume a return every year of 7.2% Okay? Now if you go back, I encourage, and I know Lourdes and Veronica will do this as well, if you go on their website and you look at the PSPRS historical returns, it's about a 12 billion dollar fund, right? It's a massive, it's 264 employer plans, about 12 billion, and they invested in a wide variety of things around the country and for that matter, I think even the world. Their 10-year return has been the net of all their costs and expenses. I want to say in the high sixes. Okay? If you look at their 30-year return, it's similar. If you look at their 20-year return, they were down below four. And that was because of the great recession we had in 2008-2009. So I think in 2008-09, there was some investment returns because of what happened, real estate and some of the dot com investments that had been (inaudible) threw that thing down. So, if we decide to move forward, please study the website, talk to Mike. But all of the clients, thus far, have gotten comfort in Mike's leadership and what he's doing down there and decided to go ahead and take the risk that the fund will, will perform. So, I wanted to make that important point to you as you consider this over the coming weeks and months, if you will. Okay. Next page, Lourdes, thank you. It's been a long night, but one of the things that we've been advocating to the extent that our clients can afford it, and Mike referenced this, if we were to do a pension financing and get to 100% funding, where we wire the money, doesn't mean that we're going to remain at 100%.

Mayor Teso: Yeah.

Mr. Reeder: Right? Because our money is invested and we're hoping that those returns come in, again, in that 7% range.

Mayor Teso: Right.

Mr. Reeder: And we're hoping that the actuarials don't change too much that impact our liability. But the reality of it is more than likely there's going to be some situations some fiscal years in which you're not 100% funded again. And you're like, "Oh, here we go again." So, what we have incorporated into our transactions is a reserve fund, calculated based on actuarial and investment, you know, risks tolerance without getting super mathy and techy with you. And they've generally been about 10%, give or take, so your case, if we did the full revenue bond, that would be about 1.4 million and either over time out of your budget, start to fund that contingency reserve fund up so that if there's a surprise two or three years from now, you can tap it and then you can wire that to PSPRS and you got to replenish it. So, we've done that, so we'll continue to talk about this, but we didn't want to bore you too much other than to introduce the concept of having a contingency reserve fund as you manage this liability. Yes, sir? Mr. Diaz, do you have a question?

Councilman Diaz: I have a few, yeah. One of them is this, on the other 6% on bonds, is it possible to increase this to two and a half million?

Mr. Reeder: Go back to that slide real quick, Lourdes. So, yes, we could do a couple of things. We're tapped out at 6%. We could increase that and then as you gain capacity, 'cause you, you gain bonding capacity each year as you pay down your principal, and so you'd have a little more money there in the future to pay a couple hundred thousand dollars off the year, for a year, if you will, and then once you recoup that, you could sell some more bonds to buy down the liability. Or 20%, if you wanted a 20% category, obviously (inaudible) capacity, but we could increase the 6%, if that's your, if that's your question.

Councilman Diaz: Yeah, (inaudible).

Mr. Reeder: I thought about that, too. It's a good, that's a very good question. Let's go to the amortization schedule, Lourdes, please. Thank you. Yeah, there you go. So you see that principal column? We'd assume no growth in your tax base so you'd get a little push there in column two, but we assume no growth. But you would start paying off, depending upon how we do that first year, let's just call it over five years. You would have another $500,00 or $600,000. And then build that capacity up and then sell that and fund the reserve fund or throw that at PSPRS, too. So it's not a bad idea. And we could run those numbers for you.

Councilman Diaz: The other question is there's been talk in the community about de-annexation, annexation into the City of Tucson. Would this pension just disappear or would the City of Tucson take it over?

Mr. Reeder: Well, I think that this would still be your, that would be the deal you cut but sounds like it probably be your, your liability would transfer. I don't, to be honest with you, that's a good question. I don't know how the pension would be paid if you were to annex in. You still got, you generating tax dollars locally, still, so that would be negotiations you would have with whoever you're talking to on that front.

Councilman Diaz: Fourteen million.

Mr. Reeder: 'Cause obviously, that would be a concern to them if, you know, they were to, okay, Lourdes, I think we're almost, is that, anything else in there? And then, oh, yeah, so Proposition 207 marijuana passed. And there's a formula that our cities and towns will get some of those revenues based on population once the business gets going. Who knows how, how big the business will be, but it's starting to be a pretty big business. And if it takes off, we're estimating you all would get about $55,000 off that and that would be allocated back to your City to use for Police and Fire. So, not a whole lot of money. The other, other thing we kicked around with staff was maybe this use tax idea which we're kind of kicking around, which Flagstaff implemented a use tax.

Councilman Diaz: I've got another question.

Mr. Reeder: Yes, sir.

Councilman Diaz: How confident are you with the (inaudible) like they were saying 100%.

Mr. Reeder: Oh, yeah, well, each fund is on its own. Right?

Councilman Diaz: Right, yeah.

Mr. Reeder: So you guys are on your own, Tucson is on their own, we're all on our own. And …

Councilman Diaz: (Inaudible) …

Mr. Reeder: … so …

Councilman Diaz: … (inaudible) thirty-seven years they come back and say, "Oh, you guys owe us some money."

Mr. Reeder: Yeah, I know, that's, that's been the frustrating part. Now, hopefully, right, hopefully, a couple things; one, the leadership of Mike Townsend and the big decision point is do you have confidence in where PSPRS is going in the future. They made some mistakes in the past. Fair? Under prior leadership, what have you. So, new management team doing some good things, working real hard, being very transparent with us. And, to keep that fund in a good return mode, if you will. Okay? That, that's, that's the key one. The other one is these actuarial changes, I think they changed to actuaries, they're changing some of their actuarial assumptions. All the, you know, all the math going on behind the scenes, and I think, well, we're all hoping is that's going to help. So, these are all kind of variables out there that, that are still frustrating or still risk factors for us, as our cities and towns get their arms around this, this unfunded liability.

Councilman Diaz: This liability is liable to send us into bankruptcy (inaudible), you know, if we've got to do something in regards to, we can't keep taxing people forever (inaudible).

Mr. Reeder: Yeah, that's where your limited economy is starting to, starting to pinch us.

Mayor Teso: Yeah.

Mr. Reeder: So, these are some things to think about. You know, if the property tax idea is something you want to, you know, ponder and think about, you probably gotta get going on it relatively soon because the, the Council has to call the election in July, so March, April, May, June, you got about 90, 90 to 120 days to make that decision for a November 21 election. If you want it and, you know, we're still not out of, you know, we're still kind of in the middle of COVID, so is, …

Mayor Teso: Right.

Mr. Reeder: … is it a good time to do this? Maybe you should do it next year. I've been thinking, Lourdes and Veronica, maybe as you ponder this decision, maybe we should look at some form of a revenue bond. Maybe we don't go 100% funding. Maybe we go 75% funding and maybe get going on that, see, as, as you know, Mr. Mayor, members of the Council, my job is to bring investors in the room, banks in the room, and get them comfortable with investing in the City. That's a big job and we have to tell the City of South Tucson's story. And, you know, as we think about this, should we maybe think about doing some kind of a revenue bond to chop that mountain down, if we can, if we can get this 4% money-ish, we can evaluate it and pull the trigger, if we think it's a good thing.

Mayor Teso: Right.

Mr. Reeder: So, that's what I've bee thinking about for you all. Or we, you know, pursue the GO, you know, shortly, or we don't do anything at all for a while. That's how I kind of see things. So, we're here, yeah?

Councilman Romero: Basically, that little 4% for $4.00 tax that we're going to, thinking about doing, that would still be way below what the City, City's tax, property tax is, isn't it?

Mr. Belshe: Yeah, what's your primary?

Ms. Aguirre: Mr., Councilman Romero, the primary property tax is at 25 cents per $100 of (inaudible) in South Tucson. What was just presented to you assumes an added 89 cents, okay? So, that would bring it to what, to around 90 cents of, a dollar ten?

Councilman Romero: Yeah, a dollar and change.

Mayor Teso: Yeah.

Ms. Aguirre: City of Tucson pays a combined primary and secondary at $1.50, $1.60. So, that's just to show you the comparison.

Councilman Diaz: They also have a million residents, so (inaudible). The other thing is I noticed that the value for tax purposes only in property tax, I think the newspaper's reporting something like $110,000 per, median, median home value.

Unknown: In South Tucson?

Councilman Diaz: Well, generally, thinking Tucson.

Unknown: Yeah.

Councilman Diaz: We're always included in that.

Mr. Reeder: This is directly from the County. The 65 for the City of South Tucson. Yeah. It's a average value.

Councilman Diaz: The homes around here are going around $110,000 to, well, there was one …

Mr. Reeder: Good point. So this is about 18 months old. Remember how the County has to catch up. They're about a year behind, eighteen months, so when we do the voter information pamphlet, if we decide to go, we use the most recent values. And that's the number that they would see in the pamphlet. But, fair question, and you're probably right. It is up.

Councilman Diaz: Thank you.

Ms. Moreno: If I may, Mayor, members of the Council, in referring to the question that Councilman Diaz just asked Mark. So, would there be (inaudible) the assessed value and the fair market value?

Mr. Reeder: Yes.

Ms. Moreno: So you would be actually using the assessed value …

Mr. Reeder: Yes.

Ms. Moreno: … to run your numbers first is what Councilman Diaz was referring to as far as the market value …

Mr. Reeder: That's correct.

Ms. Moreno: … from being sold. So then it would actually not be the value that he's referring to …

Mr. Reeder: Yes.

Ms. Moreno: … but the assessed value.

Mr. Reeder: Yeah. The County value, they call it the full cash.

Ms. Moreno: Right.

Mr. Reeder: In the old days before Prop 117, it would be about 85% of market. So, you know, 'cause they discount …

Councilman Diaz: Yeah, we just got mailed our, our …

Mr. Reeder: Yeah.

Councilman Diaz: … tax information (inaudible).

Mr. Reeder: Yeah, I just got mine, too, yeah. So, was that helpful?

Vice-Mayor Lopez: Yes.

Mayor Teso: Certainly is.

Mr. Reeder: It's, it's very complicated math and, but if you have any other ideas, you know, we're all in this together. That's, that's the ideas that we came up with and I would, I would encourage you, if you think this property tax idea is something you want to consider and maybe form a committee, a citizen's committee of the Council, subject to open meeting laws and get them in the room and then they'll understand. And if they want to support it, then they'll ask you to call the election, right, the citizens will ask you to, and then they will disband. And then they go form a pro-bond, or pro-committee and they're knocking on doors. And they probably, you need to know exactly the number of votes you need. You need 200 votes, Lourdes, 400 votes. What do you, what do you think you need, Lourdes? To get to fifty-one.

Ms. Moreno: I think it would probably be …

Mr. Reeder: So, …

Ms. Moreno: … about 350, between 350 and 400.

Mayor Teso: Yeah.

Mr. Reeder: So, you need 400 votes to get to 51%. Can you do it?

Acting Mayor Oyegbola: Mr. Mayor, just a quick comment. The, the (inaudible) present value (inaudible) when I see it as just think of the City, I think of the future of the City. And that's what I see. That's why (inaudible) because it's, it's, we've been making difficult decisions since I've been here as an intern, so it just, you know, when you live here and you see people and you see, and you want great things for the community like this, it's a, I don't know, I'm just taking it in right now.

Mr. Reeder: No, I, no, we appreciate that. You know, we've asked Tom if we can go to the state and get help. And I, my understanding the state's not going to be in a position to help our cities out with a pension issue. Now I could be wrong, but that's kind of what the tea leaves say. This would be nothing for the state to help out, but, yeah, Mr. Lopez.

Vice-Mayor Lopez: Would, I forget, okay, (inaudible) went out of.

Mr. Reeder: So, it's, it's a big, you got a lot on your shoulders. And you saw the payments are going to triple. And so, how is that going to be addressed, is what we're all in the room, you know, grappling with here a little bit. But I hope this is helpful, think about it and then we can continue to work with staff …

Mayor Teso: (Inaudible).

Mr. Reeder: … (inaudible).

Vice-Mayor Lopez: So, my question is eventually that as we pursue the bond, if that's the case that we're going to do, that, more or less, would be sort of like the price that we have to pay to keep our services going in the future, and as well focus on the current situation as we're …

Mr. Reeder: Yeah.

Vice-Mayor Lopez: … progressing to the future.

Mr. Reeder: Right.

Vice-Mayor Lopez: And that's one of the things that if we can sell the usage of our services as part of this, you know, 'cause if they turn it down and it goes away, then they're the ones to blame for whatever …

Mr. Reeder: This, …

Vice-Mayor Lopez: … happens.

Mr. Reeder: … this, this payment gets made first. This is constitutionally protected payment coming out of your, but it gets paid first.

Mayor Teso: Right.

Mr. Reeder: So, you're right. Revenues, you got to pay this. And if there's no more additional revenues, you know, then you're not, you're going to have to cut your budget.

Vice-Mayor Lopez: Yeah. Okay.

Mr. Reeder: So, you know, that's why, again, on this refinancing concept, if we, Lourdes, go back real quick. Yeah, scenario number one.

Ms. Aguirre: One or two?

Mr. Reeder: One for now. Go onto the next page there. So, if you wanted to pursue the GO, and the GO failed, right, 'cause you can't guarantee it's going to happen. You hope it would to help you out. Then we're back to this scenario And the blue line and our new payments, right, which I think you like, and as long as we can bring in an investor in here to sell the bonds to at 4% money, give or take, when we get to that blue line, go to the next page there, Lourdes. You know, you see the nine hundred, and you're paying seven hundred now, we're not going to, we're not going to go above what your payments would be there. You can see that how it's going to get to a point we're going to level that out at nine hundred and twenty, nine hundred and fifteen thousand, right? So, that, that comes out of the budget first. And you do your revenue projections, right? And, if for some reason your revenue projections come in short or what have you, then that's where you're going to have to start cutting other services. Now, if you have some budget capacity to pay this thing off a little bit early, that would be wonderful.

Vice-Mayor Lopez: I have a question.

Mr. Reeder: Yeah.

Vice-Mayor Lopez: On page 12 where you have, on the bottom graph where it says "Results impact an annual pension plan, A, UAAL payments," so, the actual savings can actually start off from 2031, according to this chart here.

Mr. Reeder: Yeah.

Vice-Mayor Lopez: Now, can we use some of this money to pay some of the debt that were savings?

Mr. Reeder: Yeah. Yeah, that's what we're doing. The GO, on this scenario, you're on scenario 2, which …

Vice-Mayor Lopez: Yes.

Mr. Reeder: … incorporates the property tax idea.

Mayor Teso: Right.

Vice-Mayor Lopez: Right.

Mr. Reeder: That, that allows us to pay it off early. You see that?

Vice-Mayor Lopez: Yes.

Mr. Reeder: That's why I thought it was an attractive feature. I wish you had more than 1.8 million.

Mayor Teso: Yeah.

Mr. Reeder: Maybe what we should do, if you want to (inaudible), and get, this gets back to your citizens, is have an election for 2.2 million. We take what we can get. We take the 1.8, transfer it, and then as we recoup our capacity, in two or three years we'll do another smaller bond sale, Lourdes, and then we'll have that money to throw at it. Alright? Now one other idea we kicked around to staff for that 20%, 6%, okay, so on the capital side of the equation, right, you all, you all have, you don't spend a lot of money on capital, do you? You don't spent a lot of money on streets.

Mayor Teso: No.

Mr. Reeder: Correct me if I'm wrong. You got some HURF money. Okay. You know, but I don't think you're doing a lot of capital improvements. And you probably, you probably have some police vehicles. You probably have some fire vehicles. Help me out here. You may need to do some improvements to your City Hall, right? Whatever.

Mayor Teso: Yeah.

Mr. Reeder: Another idea that we kicked around with Veronica is go out and get some 20% capacity for your street improvements. I'm just making things up. Whatever the, the needed things; rolling stock, fire trucks, fire, you know, public safety. And that rings well in the community. And then issue bonds for that. And would that free up any General Fund money 'cause at some point, you're going to have to spend some General Fund money on equipment, aren't you?

Vice-Mayor Lopez: Yes.

Mr. Reeder: Would that be another idea? And we could stretch that bond out over a longer period of time and lower that tax rate. And maybe get a couple of million dollars for capital improvements 'cause that rings well with our citizens, right? That's another idea that we kind of kicked around. You know, we can do a combination of both. We could do 1.8 million at 6% money, and we can go get, you know, again, being (inaudible) sensitive here, but we can go get 1.5 million for improvements. And keep that tax rate at $6.00 or $7.00 a month. Amortize it a little longer 'cause that stuff lasts longer. So, if you want to see those scenarios in our next Study Session, let me know. I know there's a lot, you guys have taken a lot in tonight. Maybe Lourdes can give us an idea on how much if we were to get some 20% bonding, could you free up $100,000 or $150,000 a year to help us with the PSPRS payments. So.

Councilman Diaz: Excuse me. That would be approximately $12.00 a month? (Inaudible) …

Mr. Reeder: You tell me what you want it to be and we can, 'cause remember on a capital, on these General Obligation bonds, we can stretch 'em out. Right? Most, most of our property tax bonds are done over 20 years because you want future generations to help pay for infrastructure that lasts a long time. So, if we stretch it out like a mortgage, we lower that tax rate. And we can, on the 6% money, we did it over a 10-year period, 'cause again, we're trying to get some of that off the books. We get (inaudible) a little bit, too, when we're 12 years or maybe shorter, or whatever. If you have an objective of having a, you know, $6.00 or $8.00 a month, we can figure that out. You know, and again, COVID, you know, and I know your community has been hit hard by COVID. And confidence is down, you know, across the country and we need to, we need a, a confident electorate. They, they want to feel good about their, you know, financial future and with this COVID thing, it's just really hit people hard, so that's a tough one right now. But you could give it a shot. If it fails, you can come back.

Vice-Mayor Lopez: Pursue it again.

Mr. Reeder: And then in the meantime, maybe we could try to figure out a revenue bond, or we wait and do it all at the same time. So, alright. Anything else, Veronica?

Ms. Moreno: No.

Mr. Reeder: Good questions.

Ms. Moreno: Thank you, Mark. And like, like Mark mentioned, there is a lot of work behind it. Thank you to you and your staff and Mike Townsend and Rene Guillen and Tom Belshe for coming down. There is a lot to take in and it's really complex. It, there's a lot of methodology behind putting all these numbers together and putting forth this presentation and it took me a while to get a good grasp of it. I kept turning around and looking at Lourdes (inaudible). But there are, like Mark indicated, there's the "do nothing" option where, I mean, we don't want to go with the "B" word, but Councilman Diaz had mentioned. And I know Mike refrained from mentioning it, but, 'cause we don't want to talk about that. But there's two scenarios and two options; one option is where you would not go and ask property owners, you know, to help you out, which would still be an option.

Mayor Teso: Right.

Ms. Moreno: But there's a lot to take in if you would, you'd like to do. And then there's the option with going back to the drawing board and seeing how much if you would tweak that number on the property taxes would it bring in not only to help on this issue, but to help with the local infrastructure and help with equipment and things like that. I mean mentioning, you know, our streets, our lights, our sidewalks, I mean that's kind of been neglected for decades now.

Mayor Teso: Yeah.

Ms. Moreno: And there's just only so much in our limited budget that we can use to pay for it. I mean as it is, there's 25 cents to the $100 value, which is going to generate, right now, $55,000 a year, which is not enough to pay for a police officer, entry level, and not near enough to pay for a fire fighter. So, I've mentioned this in the past that we are at the lowest staffing levels on record, on record. We rely on Reserves to provide coverage in our Fire Department. We've lost about two officers, well, I'll say three now, within the last couple of months, so now we're really going to have to aggressively start to recruit for officers and we're the lowest, lowest paid department in the State of Arizona. So, it's very, very challenging to hire officers. It does put an additional burden on the Police Department to act. Those of us that are still here or, in fact, the officers to work more overtime. And to, you know, try to work around that 24/7 operation. So, there is a lot of other factors that are driving this issue. But, in the long-term, what we want to do is provide the community with essential services. And we want to provide them at optimal levels and we can't always be relying, you know, with the other jurisdictions like City of Tucson and Pima County. I think that, you know, all jurisdictions should be able to provide their own services. Of course, there's always going to be, you know, local counties that help out with grants or other methods, but we definitely need to look at this and, you know, there is a timetable if you'd like to consider putting that on the ballot. Otherwise, you know, Mark can come back and tweak those numbers, as Councilman Diaz indicated.

Mayor Teso: Right. So, July, the date right now.

Vice-Mayor Lopez: Cut-off date.

Mayor Teso: The cut-off date, right. To, to get a bond out there to the community.

Ms. Moreno: For what, what he presented, yes.

Mayor Teso: Okay. Lourdes?

Ms. Aguirre: But essentially, Mr. Mayor, members of the Council, essentially, these two options are really good options to consider. I mean this is very telling right here on this graph. This is what we've been struggling for the last couple of years. This red line here, and it keeps on hiking up further, further, further, further. I remember when I first started working for the City, the contribution rates were a match. It was like 10%. So that's 10 cents on a dollar that you're paying in salaries to your Fire and to your Police. Now, because of this rising amount in here, you're paying about a $1.20 on the dollar on the Police side, and $3.50 on the Fire side. And your, and all you have is Reserves. Okay? So, …

Mayor Teso: That don't show up.

Ms. Aguirre: … the way we've done it is to really restrain our spending. I mean you see it every year 'cause the struggle. We have to account, by law, you guys passed the pension funding policy, which is posted online where Mayor and Council is promising that you're going to pay whatever is indicated by PSPRS, right? So, last year, you all adopted the budget for this year. It was, or the year before, for $750,000. That's indicated on here. Okay? And so, really, that's going to continue to go up, go up, go up. Yes, our sales tax base has maintained healthy, even through COVID. However, it is limited. And we are tapped out on the sales tax side. As we continue to increase with these expenditures, with this liability, you know, it really puts a strain on the budget. You can't provide service to the community the way you want to, the way you need to, the way they deserve.

Mayor Teso: Right.

Ms. Aguirre: Okay? So, these are two really good options because can you, you know, get a loan, a bond to pay off on this debt? Then you'd be stuck with a more stable, predictable payment year over year, as you see right there with those blue lines. And all of this green right here, potential savings, which you can then redirect into your budget, into helping, you know, restructure your departments and provide the service that the community deserves.

Mr. Reeder: Hey, Lourdes, go to page 6 real quick. So, this is your Tier 1, Tier 2 payroll. If you look on page 6 of your handouts, Mr. Mayor, members of the Council, this came from PSPRS so second column is your Tier 1, Tier 2 payroll. You see that? So, as people start to come off the books on Tier 1, Tier 2, over the years, let's just, let's just go out to 2030, you're paying four, it's about $493,000. Lourdes, you see that? And then in 10 years from now, you're down to about $300,000, right. That's because, as I understand it, the Tier 1 and Tier 2 employees are, you know, your payroll is going down 'cause people pass on, or whatever, however the actuarial math works. So, that may be a little good news for us, if you think about that. And then if that frees up a little bit of budget capacity, right, and maybe we could go ahead and, you know, try to shorten this, this thing if we end up doing a, some kind of a revenue bond. Does that make sense?

Ms. Aguirre: Absolutely.

Vice-Mayor Lopez: Yeah.

Mr. Reeder: So, thank goodness we had the Constitutional, we had the election to, to change the Tier to, to the Tier 3 category. Right? We'd be in real trouble right now. 'Cause Tier 1, Tier 2 is now closed off. Now we're Tier 3. More manageable, but we're still dealing with this page right here. That's our challenge. So, think about that Tier 1, Tier 2 payroll over time if that starts to wind down, maybe that will give us some budget relief going into the future. And then remember, we're going to have our revenue bonds paid off, I think, in '34, right? So our, our pressure point is the next 11, 12 years, as we get that prior debt paid off at $600,000 a year. And we deal with the Tier 1, Tier 2 liability, so, well, think about it. And then we'll come back maybe next month, kick this Citizen's Committee idea around, start thinking about if that's something you want to do, who you would want to be on it, people that are passionate, that care and want to help with the legacy issue. Then we'll, we can rerun the numbers. So with that, any more questions I can help you with? Thank you for your patience.

Mayor Teso: Thank you.

Vice-Mayor Lopez: Thank you.

Mr. Reeder: Great questions.

Mayor Teso: Appreciate you coming down here.

Mr. Reeder: Okay. We'll see you in a few, in a month or so, or just let us know. Thanks a lot.

Ms. Moreno: Thank you, Mark.

Ms. Aguirre: Thank you, Mark.

Mayor Teso: Have a good evening.

Mr. Reeder: Take care of your staff, Mr. Mayor, they're wonderful.

Mayor Teso: Will do. I know.

Mr. Reeder: A lot of trust in situations like this from all parties and having a great staff and a very caring City Council, a good City Attorney, it means a lot, so good job on that. See you guys later.

Mayor Teso: Thank you. Okay. If we have no other questions or anything, we'll move onto Adjournment.

ITEM #09 – ADJOURNMENT

Mayor Teso: Do we have a motion?

Councilman Romero: You got it. Motion.

Vice-Mayor Lopez: Second.

Mayor Teso: Mr. Romero.
Councilman Romero: Aye.
Mayor Teso: Ms. Romero.

Mr. Yu: Mayor, members of the Council, can the motion actually be stated?

Councilman Romero: We gotta get technical. I make a motion we adjourn.

Acting Mayor Oyegbola: Second.

Mayor Teso: Okay. Mr. Romero.
Councilman Romero: Aye.
Mayor Teso: Ms. Romero.
Councilwoman Romero: Aye.
Mayor Teso: Mr. Diaz.
Councilman Diaz: Aye.
Mayor Teso: Mr. Oyegbola.
Acting Mayor Oyegbola: Aye.
Mayor Teso: Mr. Lopez.
Vice-Mayor Lopez: Yeah.
Mayor Teso: Aye. We are adjourned.

The meeting adjourned at p.m.

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Mayor

ATTEST:

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Veronica Moreno, City Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Regular Meeting of the City Council of South Tucson, Arizona, held on the 2nd day of March, 2021. I further certify the meeting was duly called and a quorum was present.

Dated this ________ day of _______________________, 2021.

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Veronica Moreno, City Clerk